

MR MOUNT

cc Mr Walters  
Mr Scholar  
Mr Owen O/A

✓ Lo! he hath spoken and they are sore amazed

COAL

This is the last of my valedictory thoughts.

I perceive four independent strands to current Whitehall thinking about coal policy;

(i) MISC 57 continues its work on building up endurance in the event of a miners' strike. I have from time to time sent you notes about the progress, and I am happy to report that this morning we for the first time glimpsed on the horizon the prospect of indefinite endurance, albeit at a very considerable cost for converting the main coal fired power stations to dual firing. There is some way to go, but it looks at the moment as if we can achieve nine months of endurance at very little cost on top of what we have already incurred; and twelve months' endurance at an additional cost of £70 million for further coal stocking capacity;

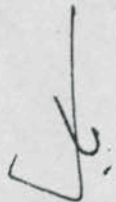
(ii) Decisions about the nuclear programme tend to be taken in their own right, but are of essential importance both to endurance in the event of a coal strike, and to future patterns of coal consumption. The main decisions still to be taken are the numbers of PWRs to be built, and their timing; and the rate of retirement of the Magnox stations, which will come to the end of their useful lives over the next ten years;

(iii) Meanwhile the NCB has ministerial approval for a closure programme, with the details of which you are familiar, and the outcome of the recent ballot should enable them to proceed at somewhat more than the basic Reference case rate. Nonetheless, a step change in the rate of closures

is needed before substantial inroads can be made to the existing scale of NCB losses;

(iv) And the prospective appointment of a new Chairman means that we shall have to turn our minds before long to the establishment of a wider coal strategy, and specific objectives for the new Board.

What has not yet been attempted is the unification of these issues through some clear thinking about costs. That will be, it seems to me, the main and most difficult area of work on coal in the coming months. The trade-off between savings made through accelerated closures (which themselves require extensive assumptions to be made about the amount of coal that can be sold at a profit) and the £800 million or so cost of converting to oil firing needs to be examined carefully. Equally the costs of keeping going our increasingly uneconomic non-coal capacity, ie old oil fired stations and Magnox nuclear stations, needs to be brought into the equation, as does the additional cost of coal stocking capacity and on-site hydrogen manufacturing capacity. We also need to have a very close look indeed at the Department of Industry assumptions about industrial endurance in the face of a coal strike, and in particular at the cost in terms of permanent loss in output if some industries have to go on short time or close. This represents a fairly formidable agenda, and I imagine that you will want Nick, who is no doubt generally familiar with the issues already, to play a leading part in the Whitehall discussion of it.



11 March 1983